But I cannot and will not support this legislation which would shatter the lives of millions of our Nation's poor. In order to move people to self-sufficiency, we must provide adequate education, training, child care, and jobs that pay a livable wage. Anything short of that does great disservice to our national sense of compassion and our moral responsibility to help the poor help themselves.

On behalf of America's children and the poor, I urge my colleagues to vote against H.R. 3734.

IT'S THE REAL ECONOMY THAT COUNTS

HON. BARNEY FRANK

OF MASSACHUSETTS

IN THE HOUSE OF REPRESENTATIVES

Monday, July 22, 1996

Mr. FRANK of Massachusetts. Mr. Speaker, one of the most infuriating aspects of our economic affairs to many people is the extent to which the bond market treats good news as bad news. This was of course most recently displayed when the best employment news we have had in years triggered serious financial downtrends. People who trade bonds have of course a right to do whatever they wish. But we as policymakers must make it very clear that we will not be driven by their short term gyrations and in particular that we will continue to pursue policies that expand employment opportunities and real incomes for working people without being deterred by the negative short term impact this may have on the bond business. James K. Galbraith, formerly of the staff of the Joint Economic Committee in better days, and now a teacher of economics at the Johnson School of Public Affairs at the University of Texas, recently wrote on this subject in a very instructive fashion. It is essential that we listen to Mr. Galbraith and not allow financial speculation to perform the reverse alchemy which has from time to time characterized their efforts.

WHAT INFLATION?

(By James K. Galbraith)

AUSTIN, TX.—The economic news on Friday was so good it was a disaster. Unemployment has fallen to 5.3 percent, the lowest it has been in six years. June payrolls increased by 239,000 jobs. And the average hourly wage rose by nine cents, the biggest one-month jump ever recorded, a level ''noticeably above the inflation rate,'' as The New York Times reported.

Pandemonium on Wall Street! The yield on the 30-year Treasury bond leaped a quarter of a point, finishing at 7.18 percent. And stocks plummeted: the Dow Jones industrial average dived 114 points.

Amid the commotion, one could hear the bond bears roaring their message that, with inflation sure to surge, the Federal Reserve must raise short-term interest rates. Many of the bears said that had the Fed's Open Market Committee known at its meeting last Wednesday what the secretive Bureau of Labor Statistics would announce two days later, it would surely have raised them. Some urged the Fed to correct this ''error'' immediately without waiting until the next regular meeting in August.

Nonsense. There is no cause for alarm. The evidence does not portend surging inflation. To begin with, the annual rate remains low: 2.9 percent in the year that ended in May. Inflation is not accelerating. Instead, productivity growth appears to be picking up. If this pattern continues, it will permit wages to grow for some time, with little effect on price inflation.

The decline in unemployment also means little. Some economists still hold to the notion of a ''natural rate of unemployment'' at 6 percent or a slightly lower figure, below which they believe inflation spirals out of control. But joblessness has been less than 6 percent without raising inflation since September 1994.

Recent economic studies confirm their is little reason to fear that prices will rise simply because of low unemployment—or for that matter, rapid growth. Most inflation of past decades had different causes, like oil shocks and war.

Some say to forget the facts. An official of a regional Federal Reserve bank recently told Business Week (anonymously, of course) that ''you have to move on anecdotal data'' In other words, monetary policy should be based on gossip. Mercifully, it is likely that the Federal Reserve Board's governors do not share this view.

The bears in the bond market must also know that their inflation warnings are unfounded. So what are they up to? The answer seems clear. We have a speculation problem, not an inflation problem.

The bears make their living by betting on the Fed's next decision, not by calling the economy. The bears predict when short-term rates will be raised and when they will decline. By selling and buying long-term bonds in advance, they can make a lot of money—if their predictions are right. So it is natural that they try to affect the Fed's decisions.

This game has been in full cry since at least October 1993, when bond-market insiders correctly anticipated (and may have provoked) the Fed's rate increase of February 1994. All through that year, each time the Fed raised interest rates, the stock and bond markets churned.

If short-term rates are pushed up tomorrow, many ordinary investors will panic and dump their bonds and stocks. Then the speculators can buy cheap and ''shear the sheep''—the small investors, in the speculators' lingo.

Sell bonds, create gossip, influence policy—what a game! But maybe the game has changed. News reports preceding the Fed's inactivity last week suggested that the chairman, Alan Greenspan, may have given up the ''pre-emptive strike'' anti-inflation strategy of 1994. Good. The idea that the economic evidence counts for something is central to proper monetary policy.

But Mr. Greenspan's possible credibility as a pragmatist, only a week old and none too sturdy, will depend on facing down the bears.

It would be an extremely good thing if the Federal Reserve held the line through the summer and fall—at least as long as core inflation (calculated without volatile food and energy prices), measured over six months or so, remains reasonable.

In that event, the interest rates on long-term bonds will finally begin to decline, and maybe short-term rates will follow. Traders committed to a strategy of creating panic will lose money. So what?

The Fed did the right thing. Now it should stand firm and show the speculators who is in charge.

FREE PRESS IN HONG KONG UNDER ATTACK

HON. JOHN EDWARD PORTER

OF ILLINOIS

IN THE HOUSE OF REPRESENTATIVES

Monday, July 22, 1996

Mr. PORTER. Mr. Speaker, I recently read a New York Times article outlining Chinese threats to restrict Hong Kong's press once the British colony comes under Chinese rule. This information, while extremely upsetting, is hardly shocking. Although the Chinese Government professes to be committed to ensuring a smooth, peaceful transition for Hong Kong, actions by the Chinese Government tell a very different, very disturbing story. As the saying goes, ''actions speak louder than words.''

In 1984, to help ensure the smooth transition of Hong Kong from British to Chinese control, Britain and China both signed the Joint Declaration providing for the peaceful return of Hong Kong to Chinese rule. This document, registered at the United Nations, specifies that Hong Kong will enjoy a high degree of autonomy except in foreign and defense affairs, and that the legislature will be elected. China has repeatedly violated the commitments made in this binding document, leading to increasing tensions between Hong Kong and China as the July 1, 1997, date fast approaches.

Mr. Speaker, just one example will suffice to demonstrate how the Chinese have chosen to ignore commitments made in the Joint Declaration. Recently, Chinese authorities threatened to abolish the first ever democratically elected legislative council and replace it with an appointed legislature. This action would not only be in clear violation of the Joint Declaration, but also in violation of the Universal Declaration of Human Rights and the International Covenant on Civil and Political Rights.

With China now threatening to restrict freedom of the press in Hong Kong, it becomes clear that Chinese officials do not intend to grant Hong Kong the degree of autonomy previously promised. This should leave us all deeply concerned about the future of Hong Kong. Mr. Speaker, Hong Kong has close to 60 papers and 675 periodicals. These papers and periodicals provide Hong Kong citizens and those throughout the world with the truth about what is happening in Hong Kong, and throughout all of Asia. Restricting free press in Hong Kong will severely limit the world's ability to follow events in Tibet, China, and Taiwan.

Mr. Speaker, Hong Kong is the world's best example of the prosperity that results from a strong and vibrant free enterprise system existing under the rule of law. China's threats to dismantle the legislature and restrict freedom of speech are not idle threats. I have no doubt that if we let Chinese threats go unchallenged, each and every threat will indeed be carried out. Tyranny thrives on the weakness of others, and the United States has been weak in its response to Chinese behavior. Mr. Speaker, we must do everything possible to ensure that democratic advances in Hong Kong are not reversed by oppressive Chinese policies. As 1997 approaches, the United States must stand with those in Hong Kong, such as journalists opposing illegal restrictions on their free speech, who are rightly unwilling to capitulate to Beijing's efforts to strip the citizens of Hong Kong of their democratic rights and freedoms.